

***AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT***

Fiscal Year Ended June 30, 2007

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT

June 30, 2007

The CPA firm of Martin, Colson, Hale, & Henderson has completed the audit of the Calloway County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$6,838,109 in its governmental activities as of June 30, 2007, with total net assets of \$12,498,227. In its business-type activities, total cash and cash equivalents were \$34,796 with total net assets of \$47,346. The fiscal court had total debt principal as of June 30, 2007 of \$6,083,923 with \$521,505 due within the next year.

Report Comments:

- | | |
|---------|---|
| 2007-01 | The Fiscal Court Should Approve All County Employees Compensation Rates In Accordance With KRS 64.530(1). |
| 2007-02 | Incentive Pay Should Be Handled The Same As Salary |
| 2007-03 | Improvements Needed Regarding Proper Recording Of Capital Assets |
| 2007-04 | Timesheets Should Be Required For All County Employees |
| 2007-05 | Lease Proceeds Should Be Accounted For Properly On The County's Books |
| 2007-06 | Debt Service Expenditures Should Be Properly Classified |
| 2007-07 | Encumbrances Should Only Be Reported As Of Year End |
| 2007-08 | The Liabilities Section Of The Quarterly Report Is Incomplete |

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
CALLOWAY COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS	10
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS	31
STATEMENTS OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS	35
NOTES TO THE FINANCIAL STATEMENTS	38
BUDGETARY COMPARISON SCHEDULES	54
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	57
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS - -MODIFIED CASH BASIS.....	61
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS	65
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS	68
COMMENTS AND RECOMMENDATIONS.....	72
APPENDIX A: CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENTAL ECONOMIC ASSISTANCE PROGRAM	

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathon Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calloway County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Calloway County, Kentucky prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of June 30, 2007, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CALLOWAY COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Larry Elkins	County Judge/Executive
Johnny Gingles	Magistrate
Eddie Clyde Hale	Magistrate
Connie Morgan	Magistrate
Bobby Stubblefield	Magistrate

Other Elected Officials:

David Harrington	County Attorney
Phil Hazle	Jailer
Ray Coursey, Jr.	County Clerk
Linda Avery	Circuit Court Clerk
William Marcum	Sheriff
Ronnie Jackson	Property Valuation Administrator
Mike Garland	Coroner

Appointed Personnel:

Sue Jones Outland	County Treasurer
Dawn Gaskin	County Planner
Michelle Corum	Personnel or Payroll Officer
Jodie Brooks	Road Supervisor
Ed Pavlick	911 Administrator
Julie Robertson	Jail Administrative Assistant/Bookkeeper
Alicia Tabors	Solid Waste Administrator

CALLOWAY COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2007

CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Primary Government</u>	
	<u>Governmental</u>	<u>Business - Type</u>
	<u>Activities</u>	<u>Activities</u>
		<u>Totals</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,743,450	\$ 34,796
Total Current Assets	7,743,450	34,796
Non-current Assets:		
Land and Land Improvements	348,227	
Capital Assets - Net of Accumulated Depreciation		348,227
Buildings	7,867,074	
Vehicles	265,201	12,550
Equipment	1,099,690	
Infrastructure Assets -- Net of Depreciation	1,258,508	
Total Non-current Assets	10,838,700	12,550
Total Assets	18,582,150	47,346
LIABILITIES		
Current Liabilities:		
Bonds Payable	430,000	
Financing Obligations Payable	91,505	
Total Current Liabilities	521,505	
Non-current Liabilities:		
Bonds Payable	5,385,000	
Financing Obligations Payable	177,418	
Total Non-current Liabilities	5,562,418	
Total Liabilities	6,083,923	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,754,777	12,550
Restricted For:		
Debt Service	905,341	
Unrestricted	6,838,109	34,796
Total Net Assets	\$12,498,227	\$47,346

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

<u>Net (Expenses) Revenues</u> <u>and Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
\$ (1,975,359)	\$	\$ (1,975,359)
446,138		446,138
(197,759)		(197,759)
(31,335)		(31,335)
(891,996)		(891,996)
(310,041)		(310,041)
(344,210)		(344,210)
(42,308)		(42,308)
<u>(3,346,870)</u>		<u>(3,346,870)</u>
	<u>17,674</u>	<u>17,674</u>
	<u>17,674</u>	<u>17,674</u>
<u>(3,346,870)</u>	<u>17,674</u>	<u>(3,329,196)</u>
1,797,665		1,797,665
167,711		167,711
382,887		382,887
152,144		152,144
91,133		91,133
134,991		134,991
253,302		253,302
185,285		185,285
111,899		111,899
200		200
776,470		776,470
<u>302,197</u>	<u>376</u>	<u>302,573</u>
<u>4,355,884</u>	<u>376</u>	<u>4,356,260</u>
1,009,014	18,050	1,027,064
<u>11,489,213</u>	<u>29,296</u>	<u>11,518,509</u>
<u>\$12,498,227</u>	<u>\$ 47,346</u>	<u>\$12,545,573</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

CALLOWAY COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2007
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$905,341</u>	<u>\$513</u>	<u>\$7,743,450</u>
<u>905,341</u>	<u>513</u>	<u>7,743,450</u>
		273,470
		636,619
	513	261,178
		5,666,842
<u>905,341</u>	<u>513</u>	<u>905,341</u>
<u>\$905,341</u>	<u>\$513</u>	<u>\$7,743,450</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Jail Grant Fund	Public Properties Corporation Fund	Non- Major Fund	Total Governmental Funds
\$	\$	\$	\$ 2,979,833
			185,285
			111,899
			55,545
153,065	329,202	10,572	4,406,402
			94,507
			371,434
<u>57,204</u>	<u>44,306</u>		<u>302,197</u>
<u>210,269</u>	<u>373,508</u>	<u>10,572</u>	<u>8,507,102</u>
			1,897,995
			1,141,254
			204,425
		3,018	34,628
			129,671
		7,585	1,659,009
	739,838		907,116
			533,331
	<u>517</u>		<u>1,099,505</u>
	<u>740,355</u>	<u>10,603</u>	<u>7,606,934</u>
<u>210,269</u>	<u>(366,847)</u>	<u>(31)</u>	<u>900,168</u>
			177,000
	360,738		1,490,738
<u>(200,000)</u>			<u>(1,490,738)</u>
<u>(200,000)</u>	<u>360,738</u>		<u>177,000</u>
10,269	(6,109)	(31)	1,077,168
<u>1,223,147</u>	<u>911,450</u>	<u>544</u>	<u>6,666,282</u>
<u>\$1,233,416</u>	<u>\$ 905,341</u>	<u>\$ 513</u>	<u>\$ 7,743,450</u>

The accompanying notes are an integral part of the financial statements.

**CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ 1,077,168
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Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Assets Disposed Of, Net Book Value	(812,948)
Capital Outlay	696,298
Depreciation Expense	(337,409)

The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.

Financing Obligations Proceeds	(177,000)
Financing Obligations Principal Payments	152,905
Bond Principal Payments	410,000
Change In Net Assets Of Governmental Activities	<u>\$1,009,014</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND- MODIFIED CASH BASIS

June 30, 2007

CALLOWAY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	<u>Business-Type Activities Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 34,796
Total Current Assets	<u>34,796</u>
Non-current Assets:	
Capital Assets:	
Vehicles	15,500
Less Accumulated Depreciation	<u>(2,950)</u>
Total Non-current Assets	<u>12,550</u>
Total Assets	<u>47,346</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	12,550
Unrestricted	<u>34,796</u>
Total Net Assets	<u>\$ 47,346</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

CALLOWAY COUNTY
STATEMENT REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS-PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts/Inmate Deposits	\$ 310,046
Total Operating Revenues	<u>310,046</u>
Operating Expenses	
Commissary Supplies	124,506
Educational and Recreational	1,589
Inmate Insurance	9,623
Vehicles Maintenance	6,749
Depreciation	1,450
Personnel	5,034
Miscellaneous	<u>3,354</u>
Total Operating Expenses	<u>152,305</u>
Operating Income (Loss)	<u>157,741</u>
Non-operating Revenues (Expenses)	
Recycling	9,849
Interest Income	376
Inmate Pay From State	9,324
Other Income	8,342
Inmate Refunds	<u>(167,582)</u>
Total Non-operating Revenues (Expenses)	<u>(139,691)</u>
Change In Net Assets	18,050
Total Net Assets - Beginning	<u>29,296</u>
Total Net Assets - Ending	\$ <u>47,346</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Inmates	\$ 310,046
Educational and Recreational	(1,589)
Commissary Supplies	(124,506)
Inmate Insurance	(9,623)
Vehicle Maintenance	(6,749)
Personnel Costs	(5,034)
Miscellaneous	(3,354)
Net Cash Provided By Operating Activities	<u>159,191</u>
Cash Flows From Non-capital Financing Activities	
Other Income	8,342
Recycling Income	9,849
Inmate Pay From State	9,324
Inmate Refunds on Accounts	(167,582)
Net Cash Provided By Non-capital Financing Activities	<u>(140,067)</u>
Cash Flow From Capital and Related Financing Activities	
Capital Asset-Van	(7,500)
Net Cash Used By Capital and Related Financing Activities	<u>(7,500)</u>
Cash Flows from Investing Activities	
Interest Earned	<u>376</u>
Net Cash Provided By Investing Activities	<u>376</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,000
Cash and Cash Equivalents - July 1, 2006	\$ <u>22,796</u>
Cash and Cash Equivalents - June 30, 2007	\$ <u>34,796</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	38
NOTE 2.	DEPOSITS	44
NOTE 3.	CAPITAL ASSETS.....	45
NOTE 4.	SHORT-TERM DEBT.....	46
NOTE 5.	LONG-TERM DEBT	47
NOTE 6.	INTEREST ON SHORT-TERM DEBT, LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	49
NOTE 7.	COMMENTS AND CONTINGENCIES	50
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	51
NOTE 9.	DEFERRED COMPENSATION	51
NOTE 10.	INSURANCE	51

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Calloway County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Calloway County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Calloway County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, FEMA Fund, and CDBG Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Jail Construction Fund and Jail Grant Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principle and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations

Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Calloway County Fiscal Court:

Economic Development Authority
 Industrial Development Authority
 Fire District
 Almo/Dexter Water District
 Water District #2

Extension District
 Library District
 Conservation District
 South 641 Water District
 Lynn Grove Water District

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ <u>1,078,600</u>	\$ _____	\$ (730,373)
Total Capital Assets Not Being Depreciated	1,078,600		(730,373)
Capital Assets Being Depreciated:			
Buildings	9,973,926		
Vehicles	526,732	15,800	(92,927)
Equipment	1,524,951	189,475	(189,100)
Infrastructure	<u>870,336</u>	<u>491,023</u>	_____
Total Capital Assets Being Depreciated	12,895,945	696,298	(282,027)
Less Accumulated Depreciation For:			
Buildings	(1,910,183)	(196,669)	(2,106,852)
Vehicles	(237,222)	(27,274)	80,092
Equipment	(476,909)	(68,087)	119,360
Infrastructure	<u>(57,472)</u>	<u>(45,379)</u>	_____
Total Accumulated Depreciation	(2,681,786)	(337,409)	199,452
Total Capital Assets, Being Depreciated, Net	<u>10,214,159</u>	<u>358,889</u>	(82,575)
Governmental Activities Capital Assets, Net	<u>\$11,292,759</u>	<u>\$ 358,889</u>	<u>\$(812,948)</u>
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Vehicle	\$ <u>8,000</u>	\$ <u>7,500</u>	\$ _____
Total Capital Assets Being Depreciated	8,000	7,500	
Less Accumulated Depreciation For:			
Vehicle	(1,500)	(1,450)	_____
Total Accumulated Depreciation	(1,500)	(1,450)	_____
Business-Type Activities Capital Assets, Net	<u>\$ 6,500</u>	<u>\$ 6,050</u>	<u>\$ _____</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long - Term Debt

A. Detention Facility Bonds-Series 1996-Revenue Bonds

On November 14, 1996, Calloway County authorized the Public Properties Corporation to issue up to \$4,545,000 of Revenue Bonds, Series 1996. These bonds were issued to retire Revenue Bonds Anticipation Notes, Series 1995, dated July 1, 1995 and to provide long-term financing for the Calloway County Detention Facilities. These bonds pay interest at the rate of 5.2 percent and are secured by the facilities, contents, and revenues stream created by such assets. As of June 30, 2007 the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2007 were \$2,850,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 225,000	\$ 148,200
2009	235,000	136,500
2010	250,000	124,280
2011	260,000	111,280
2012	275,000	97,760
2013-2017	<u>1,605,000</u>	<u>258,700</u>
Totals	<u>\$ 2,850,000</u>	<u>\$ 876,720</u>

B. Court Facility Bonds-Series 1997-Revenue Bonds

On March 13, 1997, Calloway County authorized the Public Properties Corporation to issue up to \$4,420,000 of Revenue Bonds, Series 1997. These bonds were issued to provide funding for the construction and furnishing of the Court Annex Facility. These bonds pay a variable interest rate of 4.75 to 5.625 percent. These bonds are secured by the facility and contents as well as the lease proceeds from the Kentucky Administrative Office of the Courts. As of June 30, 2007, the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2007 were \$2,965,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 205,000	\$ 160,708
2009	215,000	150,458
2010	225,000	139,708
2011	240,000	128,120
2012	250,000	115,400
2013-2017	1,465,000	356,488
Thereafter	<u>365,000</u>	<u>20,531</u>
Totals	<u>\$ 2,965,000</u>	<u>\$ 1,071,413</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long - Term Debt (Continued)

F. Road Equipment-Financing Obligation

On September 2, 2004, Calloway County entered into a financial agreement with Kentucky Association of Counties to purchase road equipment for \$139,630. The terms of this agreement consist of thirty-six principal and interest payments due monthly at a variable rate of 2.175 percent. (Effective July 2005, interest rate increases to 4.25 percent.) As of June 30, 2007, Calloway County was in compliance with the terms of agreement. The principal balance as of June 30, 2007 was \$12,112. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ <u>12,112</u>	\$ <u>115</u>
Totals	\$ <u>12,112</u>	\$ <u>115</u>

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Revenue Bonds	6,225,000		410,000	5,815,000	430,000
Financing Obligations	<u>244,828</u>	<u>177,000</u>	<u>152,905</u>	<u>268,923</u>	<u>91,505</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 6,469,828</u>	<u>\$ 177,000</u>	<u>\$ 562,905</u>	<u>\$ 6,083,923</u>	<u>\$ 521,505</u>

Note 6. Interest On Short-term Debt, Long-term Debt, and Financing Obligations

Interest on Long-term debt on the Statement of Activities includes \$14,372 in interest on financing obligations and \$329,838 in interest on revenue bonds.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

The Calloway County Fiscal Court has voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2007, Calloway County was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash basis

For The Year Ended June 30, 2007

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

ROAD FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$1,391,381	\$1,391,381	\$1,831,956	\$ 440,575
Charges For Services	75,185	75,185		(75,185)
Miscellaneous	131,500	308,500	178,134	(130,366)
Interest	<u>1,000</u>	<u>1,000</u>	<u>967</u>	<u>(33)</u>
Total Revenues	<u>1,599,066</u>	<u>1,776,066</u>	<u>2,011,057</u>	<u>234,991</u>
Expenditures				
Roads	1,487,840	1,487,840	1,651,424	(163,584)
Debt Service	157,480	334,480	141,819	192,661
Capital Projects	540,000	540,000	492,023	47,977
Administration	<u>307,188</u>	<u>307,188</u>	<u>239,534</u>	<u>67,654</u>
Total Expenditures	<u>2,492,508</u>	<u>2,669,508</u>	<u>2,524,800</u>	<u>144,708</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(893,442)	(893,442)	(513,743)	379,699
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds			177,000	177,000
Transfers From Other Funds	823,442	823,442	350,000	(473,442)
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>823,442</u>	<u>823,442</u>	<u>527,000</u>	<u>(296,442)</u>
Net Changes in Fund Balance	(70,000)	(70,000)	13,257	83,257
Fund Balance – Beginning	<u>70,000</u>	<u>70,000</u>	<u>93,179</u>	<u>23,179</u>
Fund Balance – Ending	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 106,436</u>	<u>\$ 106,436</u>

CALLOWAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditure may not exceed budgeted appropriations at the activity level.

**CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

**CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
Other Supplemental Information**

June 30, 2007

	<u>FEMA Fund</u>	<u>LGEA Fund</u>	<u>CDBG Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ <u>512</u>	\$ _____	\$ <u>1</u>	\$ <u>513</u>
Total Assets	<u>512</u>	=====	<u>1</u>	<u>513</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	<u>512</u>	_____	<u>1</u>	<u>513</u>
Total Fund Balances	\$ <u>512</u>	\$ =====	\$ <u>1</u>	\$ <u>513</u>

The notes to the financial statements are an integral part of this statement.

CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplemental Information

For The Year Ended June 30, 2007

CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	FEMA Fund	LGEA Fund	CDBG Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ <u>2,987</u>	\$ <u>7,585</u>	\$ _____	\$ <u>10,572</u>
Total Revenues	<u>2,987</u>	<u>7,585</u>	_____	<u>10,572</u>
EXPENDITURES				
Social Services	3,018			3,018
Roads	_____	<u>7,585</u>	_____	<u>7,585</u>
Total Expenditures	<u>3,018</u>	<u>7,585</u>	_____	<u>10,603</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(<u>31</u>)	_____	_____	(<u>31</u>)
Net Change in Fund Balance	(<u>31</u>)			(<u>31</u>)
Fund Balances – Beginning	<u>543</u>	_____	<u>1</u>	<u>544</u>
Fund Balances – Ending	\$ <u><u>512</u></u>	\$ <u>_____</u>	\$ <u><u>1</u></u>	\$ <u><u>513</u></u>

The notes to the financial statements are an integral part of this statement.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

- 2007-04 Time Sheets Should Be Required For All County Employees
- 2007-05 Lease Proceeds Should Be Accounted For Properly On The County's Books
- 2007-06 Debt Service Expenditures Should Be Properly Classified
- 2007-07 Encumbrances Should Only Be Reported As Of Year End
- 2007-08 The Liabilities Section Of The Quarterly Report Is Incomplete

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-03 to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Calloway County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2007-01 The Fiscal Court Should Approve All County Employees Compensation Rates In Accordance With KRS 64.530(1)
- 2007-02 Incentive Pay Should Be Handled The Same As Salary

Calloway County's response to the comments and recommendations identified in our audit is described in the accompanying comments and recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Martin, Colson, Hale & Henderson

Martin, Colson, Hale and Henderson CPAs

January 11, 2008

**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

SIGNIFICANT DEFICIENCIES (continued)

2007-04 Time Sheets Should Be Required For All County Employees.

Although KRS 337.010 requires timesheets to be submitted by non-administrative and non-supervisory employees only, we are recommending that the Fiscal Court require *all* employees to complete and submit timesheets in order to support compensation balances such as leave time and sick time. This will also document time worked for retirement purposes. (This, of course, excludes elected officials).

County Judge/Executive Larry Elkins' Response:

Time sheets should be required. We have changed and corrected the stated deficiency. Again, the alleged deficiency is contrary to historical practices in Calloway County government.

2007-05 Lease Proceeds Should Be Accounted For Properly On The County's Books

During fiscal year ending June 30, 2007, lease proceeds of \$177,000 were obtained for the acquisition of road department tractors and mowers. These proceeds were posted to account #4711 *Rentals and Leases* instead of account # 4912 *Road Equipment-Lease Proceeds* which would be the correct account. We recommend that future debt proceeds be recorded as such instead of as a revenue account.

County Judge/Executive Larry Elkins' Response:

In the future we will review leases and continue to make every effort to post rentals and leases as suggested.

2007-06 Debt Service Expenditures Should Be Properly Classified

The Governor's Office of Local Development requires, through KRS 68.210, for all expenditures to be properly classified. While testing debt service expenditures, we noted certain transactions not being posted to the debt service accounts, which should have been, and we have made audit adjustments for them. The office of the Calloway County Court Clerk is making payments on a debt owed by the Calloway County Fiscal Court for equipment being used by the Clerk's office. These payments are, in effect, contributions from the Clerk and debt payments made by the Fiscal Court. We recommend that these payments be recorded on the books of the county.

County Judge/Executive Larry Elkins' Response:

We will record the clerk's payments in the Fiscal Court's books in the future.

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CALLOWAY COUNTY FISCAL COURT

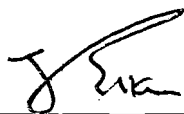
**For The Fiscal Year Ended
June 30, 2007**

Appendix A

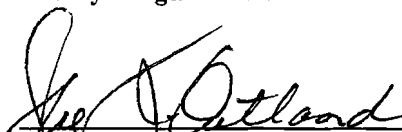
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ASSISTANCE PROGRAM
CALLOWAY COUNTY FISCAL COURT

For The Year Ended June 30, 2007

The Calloway County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as directed by the applicable Kentucky Revised Statues.



Larry Elkins
County Judge/Executive


Sue Outland
County Treasurer